

PUBLIC DISCLOSURE

AUGUST 15, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MASSACHUSETTS STATE EMPLOYEES CREDIT UNION

101 MERRIMAC STREET
BOSTON, MA 02114

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **MASSACHUSETTS STATE EMPLOYEES CREDIT UNION (or the "Credit Union")** prepared by the Division, the institution's supervisory agency, as of **AUGUST 15, 2005**. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

Massachusetts State Employees Credit Union is industrial in nature; therefore it defines its assessment area as its members. The overall rating is comprised of three performance criteria of the small institution examination procedures: Loan-to-Share Ratio, Lending to Borrowers of Different Incomes and Fair Lending.

The Credit Union's average net loan-to-share ratio for the period of June 30, 2003 to March 31, 2005 was 71.7 percent and met the standards for satisfactory performance. The Credit Union's distribution of credit among different income levels is reasonable and considered to meet the standards for satisfactory performance. In addition, the Credit Union's fair lending performance was found to be satisfactory at the time of the examination and no CRA complaints were received since the previous examination.

PERFORMANCE CONTEXT

Description of Institution

Massachusetts State Employees Credit Union is a state chartered financial institution with assets of \$65 Million as of March 31, 2005. The Credit Union operates one banking office located at 101 Merrimac Street in Boston, Massachusetts. The Credit Union has 9 Automated Teller Machines ("ATM"s) located at the MITC building in Chelsea, Shattuck Hospital in Jamaica Plain, Tewksbury Hospital in Tewksbury, the Springfield State Office Building in Springfield and the China Trade Center in Boston, the State House in Boston, the Massachusetts State Employees Credit Union lobby, the John W. McCormack Building and the Edward W. Brooke Courthouse in Boston.

Loan Distribution as of March 31, 2005		
Loan Type	Dollar Amount \$	Percent (%)
Unsecured Credit Cards	2,031,068	4.7
Unsecured Loans	6,922,463	16.2
New Vehicles	2,738,634	6.4
Used Vehicles	5,114,963	12.0
First Mortgages	19,386,336	45.3
Other Real Estate Loans	6,310,375	14.7
All Other Loans	288,774	0.7
Total	42,792,613	100.0

Source: Report of Condition

The Credit Union's loan portfolio is comprised mainly of first mortgage loans, other real estate loans, unsecured loans and new and used vehicle loans

Services and hours of operation are Monday through Friday from 8:15 AM to 4:00 PM.

Massachusetts State Employees Credit Union's ATMs are linked to the NYCE and CIRRUS networks. The Credit Union is also a member of the SUM network, which is a surcharge-free alliance of several financial institutions that include over 1,000 ATMs throughout Massachusetts. The Credit Union's customers can avoid ATM surcharges by conducting business at alliance members' ATMs that bear the SUM logo.

The Credit Union offers four personal checking accounts, three savings accounts, three credit cards, money market accounts, CD options as well as IRA accounts.

The Credit Union offers a "Free Interest Checking" account which requires no minimum balance or monthly fee when the member direct deposits his paycheck. A debit card is also included per the request of the member.

The Credit Union offers free telephone and online banking to all its checking, savings, investment and loan account customers. The Credit Union's automated telephone system and online banking, provides 24 hour/7 day account information and access. The service allows customers to check current balances, request a withdrawal, to transfer funds and to make loan payments.

PERFORMANCE CONTEXT (CONTINUED)

Parity Powers

In August 2004, Massachusetts State Employees Credit Union applied for and received approval from the Division to engage in certain activities authorized under the “Parity with Federal Credit Union Regulations”, 209 CMR 50.00. Those parity powers that may impact the Credit Union’s CRA performance are as follows:

- Allow the Credit Union to offer personal loans up to \$20,000 for a term up to 6 years pursuant to 209 CMR 50.15(3)(a);
- Allow direct automobile financing up to 100% of the value of the collateral up to \$60,000 for a term up to 6 years pursuant to 209 CMR 50.15(3)(b);
- Allow lines of credit and credit cards up to \$75,000 for a term up to 20 years pursuant to 209 CMR 50.15(3)(c);
- Allow home improvement loans up to \$75,000 for a term up to 20 years pursuant to 209 CMR 50.15(3)(d);
- Allow manufactured home loans up to \$75,000 for a term up to 20 years pursuant to 209 CMR 50.15(3)(e);
- Allow boat, camper, and trailer loans up to \$75,000 for a term up to 20 years pursuant to 209 CMR 50.15(3)(f);
- Allow first lien residential mortgages up to \$500,000 for a term up to 40 years pursuant to 209 CMR 50.15(3)(g);
- Allow second lien or non-purchase first lien closed-end home equity residential mortgage loans up to \$125,000 for a term up to 20 years pursuant to 209 CMR 50.15(3)(h);
- Allow second lien or non-purchase first lien open-end home equity residential mortgage loans up to \$125,000 pursuant to 209 CMR 50.15(3)(i);
- Allow 95% loan-to-value for first lien 40-year residential mortgage loans up to \$500,000 pursuant to 209 CMR 50.15(3)(j);
- Allow 95% loan-to-value for 20-year closed-end second lien and non-purchase first lien home equity residential mortgage loans up to \$125,000 pursuant to 209 CMR 50.15(3)(j); and
- Allow 95% loan-to-value for open-end second lien and non-purchase first lien home equity residential mortgage loans up to \$125,000 pursuant to 209 CMR 50.15(3)(j).

The Division last examined the Massachusetts State Employees Credit Union for compliance with CRA on February 26, 2001. The Credit Union’s CRA performance was rated Satisfactory at that time.

PERFORMANCE CONTEXT (CONTINUED)

Description of Assessment Area

Massachusetts State Employees Credit Union defines its assessment area as its membership, in accordance with the Massachusetts CRA Regulation, 209 CMR 46.41(8), which states “Notwithstanding the requirements of this section, a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area.” The Credit Union has elected to identify its assessment area in this manner.

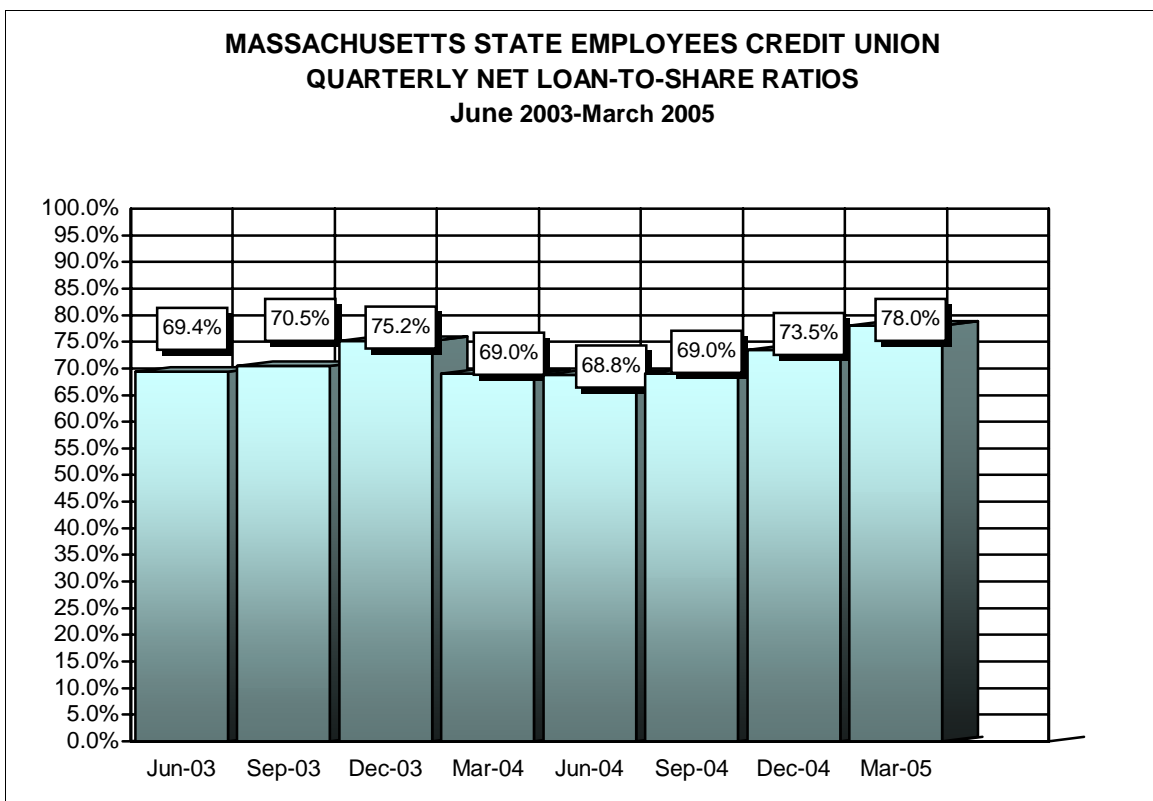
The Credit Union’s membership (as incorporated in its by-laws) is open to all employees of the Commonwealth of Massachusetts, its agencies, authorities, departments, as well as retired persons of these entities, employees of the Credit Union, as well as the immediate families of these qualified members.

PERFORMANCE CRITERIA

1. LOAN TO SHARE ANALYSIS

Based upon the Credit Union's asset size, its capacity to lend, and the credit needs of the membership, the analysis of the Credit Union's net loan-to-share ratio indicates that the Credit Union meets the standards of satisfactory performance.

An analysis of Massachusetts State Employees Credit Union's net loan-to-share ("LTS") ratios was performed using National Credit Union Administration ("NCUA") quarterly call reports from June 30, 2003, through March 31, 2005. This analysis was conducted to determine the extent of the Credit Union's lending compared to deposits received from its members. The results show some fluctuation during the period from a low of 68.8 percent in June 2004 to a high of 78 percent as of March 2005. Although the Credit Union experienced minor growth in loan volume, the higher LTS ratio is due primarily to the lack of sustained deposit growth. The average net LTS ratio for the period was 71.7 percent. The following graph illustrates the net LTS detail for the period reviewed.



A comparison of the Credit Union's net LTS ratio to that of other similarly situated credit unions was also performed. As of March 31, 2005, the Credit Union had total assets of approximately \$65 million and a net LTS ratio of 78 percent. The net LTS ratios and the total assets of four other credit unions for this period are reflected in the following table.

PERFORMANCE CRITERIA (CONTINUED)

Comparative Net Loan To Total Share Ratios*		
Institution	Total Assets \$(000)	Net LTS Ratios (%)
Postal Community Credit Union	120,178	81.8
Massachusetts State Employees Credit Union	64,963	78.0
Energy Credit Union	74,835	72.4
Harvard University Employees Credit Union	196,468	70.2
Mass Mutual Credit Union	121,575	61.8

*NCUA Statement of Condition as of 3/31/05

As the preceding table shows, the Credit Union's net LTS ratio is comparable to that of similar institutions.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA

Under the CRA regulation, 209 CMR 46.41(8), a credit union's membership that is not based on residence, such as Massachusetts State Employees Credit Union, may define its assessment area as its membership, as opposed to a geographic area. A membership defined assessment area does not consider any fixed limits on geography, therefore an evaluation of credit extended inside and outside of the assessment area was not conducted as such an analysis would not be meaningful.

3. LENDING TO BORROWERS OF DIFFERENT INCOMES

The distribution of residential loans to borrowers of different incomes reflects good penetration among all income levels. Based upon this analysis, the Credit Union's effort meets the standards for satisfactory performance.

The analysis of borrower income level consisted of comparing the ratio of borrower income in 2003 to borrower income in 2004.

The following table indicates loans originated and categorized by the applicants' reported income for the Metropolitan Statistical Area ("MSA") in which the property is located. Loans extended to borrowers with incomes within the upper-income level for the MSA represented the largest individual category with 34.5 percent of the total number for the period reviewed. Loans extended to borrowers of middle-income were 31.5 percent of the total number. Loans to borrowers of low and moderate-income represented 8.1 percent and 25.9 percent of loans originated, respectively. The following table provides a breakdown of residential loans originated by number categorized by the applicants' income level.

PERFORMANCE CRITERIA (CONTINUED)

Median Family Income Level	2003		2004		Total	
	#	%	#	%	#	%
Low	9	6.4	7	12.1	16	8.1
Moderate	34	24.5	17	29.3	51	25.9
Middle	42	30.2	20	34.5	62	31.5
Upper	54	38.9	14	24.1	68	34.5
NA	0	0.00	0	0.00	0	0.00
Total	139	100.0	58	100.0	197	100.0

The Credit Union's overall level of lending decreased from 2003 to 2004. The increase in housing costs continues to be a prohibitive factor in homeownership for low and moderate-income borrowers; however, the percentage of lending among low-income borrowers and moderate-income borrowers increased significantly. Although the total volume of loans originated is relatively small, the performance within the low and moderate-income category is considered good.

4, GEOGRAPHIC DISTRIBUTION OF LOANS

According to the CRA regulations, credit unions whose membership's by-law provisions are not based on residence are permitted to designate its membership as its assessment area. Therefore, since Massachusetts State Employees Credit Union has defined its assessment area as its membership, as opposed to the geographic area, an evaluation of credit extended within defined geographic areas was not conducted as such an analysis would not be meaningful.

5. REVIEW OF COMPLAINTS/ FAIR LENDING POLICIES AND PRACTICES

Based upon the review of the Credit Union's public comment file and its performance relative to fair lending policies and practices the institution meets the standards for satisfactory performance.

The Credit Union's fair lending data was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy. A review of the public comment file revealed that the Credit Union received no complaints pertaining to the institution's CRA performance since the previous examination. Sample reviews of the Credit Union's approved and denied residential loan application files were conducted to determine if fair lending issues existed. No discriminatory practices were noted.

The Credit Union maintains a Fair Lending Policy Statement that meets the requirements of Regulatory Bulletin 2.3-101.

PERFORMANCE CRITERIA (CONTINUED)

The Credit Union's staff is comprised of a total of 31 employees, three of whom work part-time. The Credit Union has a number of bi-lingual employees who are fluent in French, Italian, Portuguese, Spanish, and Vietnamese.

The Credit Union's marketing efforts appear to adequately reach members of all income levels. The institution evaluates both the products it offers and its product mix to help determine whether those products are responsive to the needs of its members.

The Credit Union sponsored a first time homebuyer seminar in 2003 in conjunction with Members Mortgage.

The Credit Union refers all loan customers whose home loans are delinquent to the appropriate credit counseling agency.

MINORITY APPLICATION FLOW

During the period reviewed, the Credit Union received a total of 255 HMDA-reportable applications. Of this total, 48 or 18.8 percent were from minority applicants and 37 or 77 percent were approved.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (101 Merrimac Street, Boston, MA 02114)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.